

## 5.2 Discussion of Public Safety Facilities Revenue Measure

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**Executive Summary:** City staff has identified more than \$50 million in public safety capital needs for which there is currently no source of funding. This report presents a description of the various types of voter-approved revenue measures that could fund the capital projects, a discussion of the work elements and process proposed, and information on other factors that may affect Council's decision about placing a revenue measure on the ballot. In addition, some types of revenue measures can be used to fund operations. Staff is exploring this option and the City's public safety operations needs and will return at a later date with more information. Staff recommends the Council approve the process outlined below.

**BACKGROUND:** The City has more than \$50 million in unfunded public safety capital projects. The projects include:

1. Rebuilding old, inadequate fire stations in Niles (Station 2), Centerville (Station 6) and Decoto (Station 8);
2. Retrofitting and renovating fire stations in Central Fremont (Station 1), Irvington (Station 3), Mission San Jose (Station 4), Warm Springs (Station 5), Stevenson (Station 9), and Ardenwood (Station 10);
3. Retrofitting and expanding the Police Building;
4. Constructing a Public Safety Training Center, comprised of an indoor firing range for the Police Department, a training tower for the Fire Department, classrooms, and storage;
5. Purchasing fire apparatus;
6. Implementing critical safety and disaster response upgrades at City facilities; and
7. Constructing an Emergency Operations Center.

Last year, the City Council adopted the 2001-2006 Capital Improvement Plan/Integrated Capital Assets Plan (CIP/ICAP) to guide spending on capital projects and maintenance of infrastructure over the next five years. The CIP/ICAP programs over \$400 million for capital projects and asset maintenance over the five-year period. The vast majority of the funding coming from sources other than the City's General Fund, and the monies must be used for specific purposes. For example, the CIP/ICAP programs \$112 million in State Transportation Improvement Funds that can only be used for transportation-related capital projects—in this case the I-880/Mission Boulevard/Warren Avenue Interchange project. At the time the CIP/ICAP was adopted, staff identified an additional \$350-plus million of unfunded high priority capital projects. Because the City's General Fund is unable to pay for these projects, and no other funding source has been found for them, Council directed staff at the November 20, 2001, First Quarter Budget Update to explore options for a public safety revenue ballot measure.

**Types of Revenue Measures:** Under California law, taxes are classified as either general taxes or special taxes. General taxes require a simple majority vote of the electorate to pass, while special taxes require approval by two-thirds of the electorate.

**General Taxes vs. Special Taxes:** A tax is called a “general tax” if its revenues may be used for any governmental purpose. In other words, the revenues generated by the tax aren’t pledged to any specific use. The revenues flow to the general fund and are used for general governmental purposes. Such taxes require a simple majority vote of the electorate and the vote must be consolidated with a regularly scheduled election for members of the local governing body. The City already levies some general taxes (e.g., the business license tax, the hotel/motel tax), but the revenues raised by these taxes are relatively low because they target only a segment of the population—businesses and hotel/motel guests.

A tax is considered a “special tax” if its revenues are pledged to a specific purpose, like public safety facilities. (The City’s paramedic assessment is an example of a special tax. Special taxes require a two-thirds vote for approval.)

Staff has been exploring three types of special taxes: general obligation bonds, parcel taxes, and Mello Roos taxes.

**General Obligation Bond:** A general obligation bond (or G.O. bond) is a special tax imposed citywide on all real property (residential, commercial, and industrial). The tax rate is an *ad valorem* tax, or a tax based on the assessed valuation of real property. It is often calculated as a set amount per \$100,000 of assessed value. Under a G.O. bond, the tax rate is the same for all property owners, though the dollars each owner pays will vary according to the value of the property. Over time the tax rate will drop as property values increase and new development is added to the tax base.

G.O. bond proceeds can only be spent on the acquisition and improvement of real property (including fixed equipment that constitutes fixtures). They cannot be used to fund operations, maintenance, or the purchase of equipment. General obligation bonds result in the lowest borrowing cost because the source of repayment is very secure and bond reserves are not required.

**Parcel tax:** A parcel tax is also a special tax, but it is not based on assessed value. Rather, a parcel tax is levied as a flat fee per “dwelling unit equivalent,” regardless of the value and size of that unit. (The City’s paramedic assessment is a parcel tax.) Under a parcel tax, certain classes or types of property, or property owned by people above a certain age, can be exempted from the tax levy. Parcel taxes can be used to pay for capital projects, equipment, and operations. Parcel taxes can also be used to pay for debt service on bonds used to fund capital projects and/or the purchase of equipment.

**Mello Roos Community Facilities District:** The Mello Roos Act allows a city to establish a Community Facilities District (CFD) to finance public services and facilities, including police and fire protection. Mello Roos districts must be approved by two-thirds of the registered voters in the proposed CFD. Property owners in Mello Roos districts are responsible for payment of a special tax, the amount of which is not (directly) based on the value of the property. Rather, the special taxes are based on mathematical formulas that may take into account property characteristics such as square footage and parcel size. CFD boundaries can be drawn to exclude specific parcels from taxation, but there is no other type of exclusion other than boundaries. Boundaries also do not have to be contiguous.

**Work Elements and Process:** If Council decides to place a revenue measure on the November 2002 ballot, it must do so by August 9. Since there are no Council meetings in August, Council will need to decide by July 23, the date of the final Council meeting, whether or not to place a measure on the November ballot. Staff has identified a number of steps that must be taken prior to this date, including refining the list of public safety capital projects and their cost estimates, providing information to the public, developing estimates of revenue that could be raised by the various tax options, and conducting professional polling.

1. A project team comprised of staff from Engineering, the Police and Fire Departments, and the City Manager's Office, has been working on solidifying the public safety facilities project list and cost estimates. Since not all projects can begin the first year after revenue is collected, staff is developing a multiple-year phasing schedule that will include sufficient contingencies in the cost estimates to cover this phasing.
2. Public information and citizen input are important components of this project. Thus, staff has begun meeting with various citizen and business groups in Fremont to provide information about the City's public safety facilities needs, receive citizen input, and answer questions. These discussions will continue throughout the process.
3. The City's financial advisor and tax consultants have been working to determine the tax consequences of various revenue measures. For instance, if the City wanted to raise \$60 million through a G.O. bond, then the average annual tax levy would be approximately \$11.50 per \$100,000 assessed valuation, while the maximum would be approximately \$18.50. If the City chose to pursue a parcel tax (either to fund projects and operations directly, or to pay the debt service on bonds the City sold to fund projects), then the tax levy per parcel would be approximately \$13 to raise \$1 million annually. Because no decision has been made about which projects to include and how much money to raise, these numbers represent a preliminary estimate only.
4. The City Manager has engaged a professional polling firm, the Center for Community Opinion in San Ramon, to explore community reaction to the scope and cost of a potential public safety facilities revenue measure. The poll will also gauge the willingness of residents to approve a revenue measure, the amount they are willing to pay, and their reaction to the various funding options available. The poll will be conducted in late March, and the results will be presented to the Council about a month later.

**Other Factors to Consider:** Both the Fremont Unified School District and Ohlone College were successful in passing their general obligation bond measures (\$157 million and \$150 million, respectively) earlier this month, though both passed by less than the two-thirds vote the City would be required to obtain. The School District's measure received 63.4% of the vote, while Ohlone College received 56% of the vote. It is unclear how their success, and the resulting increase of property owners' tax bills, will affect the willingness of Fremont's voters to support a public safety revenue measure in November 2002. The professional polling should give some indication of the bonds' impact on the City's potential for success.

In addition, the League of California Cities is working towards placing an initiative on the November 2002 ballot to ensure State Constitutional protection of local government revenues. (Staff will return to Council with more information about this initiative if it qualifies for the ballot.) The League will make a final decision about the details of the initiative and the timing (they have discussed the possibility of delaying until 2004), later this year. While this initiative will not raise property owners' tax bills, it could prove confusing. It may not be clear to voters that a Constitutional protection of local government revenues will still leave the City without the funds to pay for needed public safety improvements, since the protection measure would be aimed at preserving revenue now paying for public safety and other critical services.

Last year, several public safety and public health groups proposed raising the state sales tax by ¼ cent and using the money to fund public safety and public health activities related to terrorism response. The coalition, which dissolved in early January, was trying to place the initiative on the November 2002 ballot. While staff is not aware of any attempts to revive the coalition and the initiative at this time, there could be such an effort in the future.

Finally, the November election is rapidly approaching. Council will need to make the decision to place a measure on the ballot no later than July 23, the last scheduled Council meeting before the August legislative recess. Many cities that have successfully passed revenue measures took several years to complete their preliminary needs assessments, gather citizen input, and provide public information. Both Clovis and Claremont, for instance, went through lengthy public engagement processes prior to developing an actual ballot measure. San Jose residents just passed a \$159 million G.O. bond measure (by 71.6% of the vote) that will pay for police and fire facilities. According to one of San Jose's Deputy City Managers, the City has been working for several years to define its public safety needs and provide information to the public. Council may wish to continue the public information process beyond July 23 and defer the question of placing a measure on the ballot until after November. A final decision on timing of a ballot measure should be made after we have better information about what voters may be willing to support.

**Conclusion:** The ultimate decision about whether the City should place a revenue measure on the November 2002 ballot should be based on the likelihood for success. While the November election continues to be the target date for planning purposes, the poll the City has commissioned should provide information to help guide Council's decision about if and when to proceed with a ballot measure.

**ENCLOSURE:** None.

**RECOMMENDATION:** Approve the process outlined for preparing for a public safety revenue measure.

